

MEDICARE SKILLED NURSING FACILITY CUTS & THE IMPACT ON MEDICAID: ISSUE, BACKGROUND, KEY CONSIDERATIONS & RESOLUTION

ISSUE & BACKGROUND

New Mexico Medicare skilled nursing facility (SNF) rates were reduced on October 1, 2011 by an average of 10.5%; the national average reduction was 11.1%. This amounts to an average \$51.15 reduction for every day of care provided to a NM Medicare resident, over \$11.7 million in statewide cuts. In the same federal rule that announced these rate cuts, therapy service delivery and payment changes were included, adding an additional 3.5% average rate cut or another \$17.05 per Medicare patient day. This 14% average Medicare reduction totals \$68.20 for every day of service to a Medicare patient. **The total decrease in rates and other changes actually totals at least \$15.6 million dollars for our state.**

Because NM Medicaid rates have been significantly less than audited allowable costs over the past decade, Medicare has historically covered the Medicaid program shortfall. NM Medicaid underfunding is now estimated* at \$20-25 million annually (\$7-8 million NM general fund plus federal matching dollars). The October 2011 cut and **another expected 2% reduction** as part of federal budget reduction plans, eliminates cost shifting to Medicare.

SNF Medicare daily payment rates are based on the resources needed to care for a skilled nursing facility patient; there are 66 SNF levels of care or resource utilization groups (RUGs). Each patient is assessed on admission and on frequent intervals, thereafter. National RUGs payments are adjusted for local wage differences. In October, 2010, changes were made to the SNF patient assessment form and the Centers for Medicare and Medicaid Service (CMS) made RUG payment level changes which were supposed to shift payments between RUG groups AND be budget neutral overall. Unfortunately, CMS missed the mark in these calculations and nationally has overpaid SNFs above the CMS budget level. Now, CMS has chosen to attribute the overpayments to provider "up-coding" or coding to achieve higher payments. The reality is that a multiple page assessment completed by a nurse at bedside is a step far removed from payment. Regardless of the cause, CMS cut payments on October 1, 2011 to adjust for this budget overage. Again, the average daily rate cut is \$51.15 for each Medicare SNF patient. Rates 10/1/10 averaged \$485.37; as of 10/1/11 rates now average \$434.22. With the additional \$17.05 per day therapy related reduction, **this was a staggering cut, unprecedented as to the size of the reduction.**

(over)

*NMHCA can only estimate rates because Evercare (United Healthcare) and AmeriGroup contracts with facilities prohibit the provider from releasing what rates are paid for Medicaid NF services. NMHCA believes in transparency in the rate setting process and notes that twenty plus years of transparent fee for service rate-setting served the State, the public and providers. However, Medicaid has not moved to require managed care companies to operate in such a transparent manner.

KEY CONSIDERATIONS

- Cuts by CMS have further threatened the already marginal solvency of NM nursing facilities. This is referenced in the weeks following the CMS announcement of cuts by the 60+ percent stock reduction in our publicly traded nursing facility companies that serve patients in NM.
- Nursing facility operating margins in NM were estimated at 1.5% in the past; this is already a dangerously close margin. Of course, Medicare cuts and Medicaid underfunding have resulted in staff reductions and other serious measures to avoid further operational deficits.
- Typically, 65-75% of nursing facility costs are staffing and benefit costs. Underfunding and rate reductions translate into staffing cuts and lost jobs. There is no question that quality of care and quality of life for our frail seniors is in serious jeopardy.
- Some of our state's small rural SNFs may not yet grasp the magnitude of the reduction that was effective October 1. Sorting out the true operational impact will unfold over the next six months.
- Food, utility and insurance costs keep growing and staffing needs and market wages have also increased in recent years. On average, managed care payments to nursing facilities don't even come close to actual audited costs. NM Medicaid rates for nursing facility services have increasingly lagged behind costs. The deficit is estimated between \$18 to \$20 for each Medicaid patient on a daily basis and amounts to \$20-25 million total statewide.
- Medicaid knows what providers spend for care – annual cost reports are filed and audited. Cost cutting to live within rates has pushed facilities to the limit. **We can no longer compromise the care our seniors deserve. It is an outrage that funding a decade ago covered higher staffing levels than can be maintained under today's Medicaid rates.**

RESOLUTION

The first immediate step is to stop further erosion in the quality of care and quality of life for those who need our care and concern the most. It will take approximately \$7-8 million in NM general fund appropriations by the state legislature to keep NM nursing facilities at the current level of service. While we recognize Medicaid is stretched due to a \$100 million payback problem with CMS, our parents and grandparents deserve our commitment and funding for quality of care and quality of life NOW!

For more information, contact:
Linda Sechovec
New Mexico Health Care Association
2329 Wisconsin St. NE, Ste. B
Albuquerque, NM 87110
505-880-1088; lsechovec@nmhca.org